

**HB**

**217**

# Alaska State Legislature

*Session: (Jan-May)*  
State Capitol, Room 208  
Juneau, AK 99801-1182  
(907) 465-4859  
Fax (907) 465-3799



*Interim: (June-Dec)*  
716 West 4th Avenue, Suite 300  
Anchorage, AK 99501-2133  
(907) 269-0129  
Fax (907) 269-0128

**John Harris**  
Speaker of the House

## Sponsor Statement

### **HB 217 - Determination of full and true value of taxable municipal property for the purposes of calculating funding for education and certain other programs**

Under current law, organized cities that are school districts and boroughs are required to make financial contributions in support of their schools. Those contributions are based on the value of the taxable property within the borough boundaries. These municipalities are required to contribute the equivalent of a 4-mill tax on the full and true value of all taxable property within their municipal boundaries.

The full and true value of a municipality includes values of all taxable real and personal property, which includes properties such as, oil and gas properties, residential and commercial property, farms and recreational property.

HB 217 does not force municipalities into levying a property tax to generate local revenue for school contribution by including the value of oil and gas properties in the full value determination. It excludes the value for oil and gas unless the municipality chooses to levy a property tax. This accomplishes two things. First, it allows the municipality to choose the method of raising revenues. Without the high value of oil and gas, a municipality may choose other methods of raising revenues, such as a sales tax. Second, it allows the state to keep the 20 mills levied against all oil and gas property. If a municipality is forced to levy a property tax, the tax levied against the oil and gas property is deducted from the revenues the State of Alaska should receive. This is a win-win situation for both the municipalities and the state.

Comments on HB 217  
Full and True Value of Taxable Municipal Property  
Steve Van Sant, State Assessor  
Alaska Department of Commerce

This legislation affects the full value determination with respect to two different scenarios. First, it clarifies that if an area is detached from a municipality, the full and true value of the municipality, from which the area detached, will exclude the value that existed for the two years preceding the detachment. This is necessary due to existing statutes which, require local contribution for schools based upon the value determined "as of January 1 of the second preceding fiscal year." In other words, the full value determined this year (2005) would not be used for a municipality's local education requirement for two more years (2007). Therefore, when an area is detached, it should not be this year's value that is used, but the value as of two years ago. This portion of the legislation has no fiscal impact to our Division.

Second, this legislation requires that the full value determination within an area that is a school district, exclude the value of property assessed under AS 43.56, if the municipality does not levy a property tax. Property taxed under AS 43.56 refers to oil and gas property (such as the TAPS pipeline and pump stations along the pipeline). This property is assessed by the Department of Revenue, which levies a 20 mill tax against the property. A municipality that levies a tax under AS 29.45 may also levy the same rate of tax against the pipeline that it levies against local property (such as residences, offices and all other property.) The total of all property (AS 29.45 property and AS 43.56 property) is included in the full value determination and consequently, the entire amount is used in the calculation for the local contribution to education. However, this approach does not make much sense if an area does not levy a local property tax. This area would receive no direct tax revenue from the oil and gas property, however, we are required to include that value in the full value determination. The inclusion of AS 43.56 property values almost forces a municipality to levy a property tax in order to obtain enough revenue that the extra value will require for the local education contribution. By excluding this value in the first place, if a local tax is not levied, a municipality is not required to raise substantially more revenues to cover this additional valuation. It also allows the state to retain the tax revenue generated from the state 20 mill property tax.

There is no fiscal impact to this Division by the passage of this legislation. However, without this legislation, it is possible state revenue will decline in the future if boroughs do form along the TAP's pipeline corridor and are forced into levying a property tax rather than another form of revenue generation such as a local sales tax.



# City of Delta Junction

P.O. Box 229, Delta Junction, Alaska 99737  
Ph 907-895-4656 Fax 907-895-4375  
www.ci.delta-junction.ak.us  
city@ci.delta-junction.ak.us

Welcome to the  
Friendly Frontier

March 8, 2005

cell 378-1320

Representative John Harris  
State Capitol  
Juneau, Alaska 99801

Via Fax# (907) 465-3799

Dear Representative Harris,

This letter serves as a request for assistance with legislation concerning local contributions for educational services. As you know, the issue of a possible borough in the Delta region is currently under review. One issue of concern is the requirement that a borough pay a four-mill equivalency of the value of all property including property covered by A.S. 43.56 (oil and gas properties). As you are aware, any tax on oil and property is not added to the existing state tax, but instead simply deducted from the amount the state receives.

According to the state, in the Delta region there is approximately \$217 million worth of oil and gas properties and somewhere close to another \$150 million worth of residential and commercial property. This means a borough would need to at least raise \$1.4 million for educational services out of which \$800,000 would come from the state's coffers.

Regardless of when a borough is organized in the region, the residents will seek as many options as possible to raise revenues. In light of the substantial value of the TAPS property within the Delta region, the residents may be unnecessarily forced to impose a property tax that in effect takes funds from the state of Alaska.

A better approach that benefits both the state and local residents would be an arrangement in which if a municipality with A.S. 43.56 properties chooses to not raise revenues through a property tax, that it must pay a four mill equivalence on only non-oil and gas properties. Such language could read as follows:

in making the determination for a municipality that is a school district or for a city that is within a borough school district, the assessed value of property taxable under AS 43.56 shall be excluded if a municipal tax is not levied under AS 29.45.080 in that school district.

Your help on these matters is greatly appreciated.

Sincerely,

Thomas "Roy" Gilbertson  
Mayor

Cc: Pete Fellman Via Fax# (907) 895-5017

## Upper Tanana Borough Valuation Summary Page

### Valuations Estimates

<b>(DELTA Area) Delta/Greely REAA</b>	
Delta Commercial	\$ 24,483,300
Delta Residential	\$ 131,514,100
Personal Property	\$ 26,080,600
<b>Sub-Total Delta/Greely (Area) REAA</b>	<b>\$ 182,078,000</b>
Pogo Mine	\$ 125,000,000
AS 43.56 Prop.	\$ 194,500,000
<b>Total Delta/Greely (Area) REAA</b>	<b>\$ 501,578,000</b>

Est. 50% complete as of 1-1 2005

75 Miles @ \$1.9 million per mile plus 1 pump station (Ø) at \$52 million (P.S. 10 zero \$\$)

### Education-Local Funding Requirement

		Total Upper Tanana Basin Borough	(\$577,162,500)
		Local Contribution Requirement	<b>\$2,308,650</b>
<hr/>			
<b>(TOK Area) Alaska Gateway REAA</b>		Delta/Greely REAA w/o pipeline	(\$307,078,000)
Tok Commercial	\$ 10,652,900	Local Contribution Requirement	<b>\$1,228,312</b>
Tok Residential	\$ 40,331,900	Delta/Greely REAA with pipeline	(\$501,578,000)
Personal Property	\$ 7,648,700	Local Contribution Requirement	<b>\$2,006,312</b>
<b>Sub-Total (Tok Area) Alaska Gateway REAA</b>	<b>\$ 58,633,500</b>		
		Alaska Gateway REAA w/o Villages	(\$58,633,500)
Chicken/Mentasta/Tanacross Northway/Tetlin	\$ 4,951,000	Local Contribution Requirement	<b>\$234,534</b>
Eagle	\$ 12,000,000		
<b>Total (Tok Area) Alaska Gateway REAA</b>	<b>\$ 75,584,500</b>	Alaska Gateway REAA w/o Villages & Eagle	(\$75,584,500)
		Local Contribution Requirement	<b>\$302,338</b>

Total Value of Proposed Upper Tanana Basin Model Borough	<b>\$ 577,162,500</b>
---	-----------------------

March 29, 2005

Rep. John Harris  
State Capitol Room 208  
Juneau, AK 99801-1182

RE: HB 217

Dear Representative Harris,

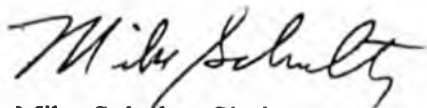
This letter serves as a request for assistance with HB 217 concerning local contributions for educational services. As you know, the issue of a possible borough in the Delta region is currently under review. One issue of concern is the requirement that a borough pay a four mill equivalency of the value of all property including property covered by A.S. 43.56 (oil and gas properties). Any local tax on oil and gas property is not added to the existing state tax, but instead is deducted from the amount the state receives.

HB 217 would not require a borough to contribute four mills of the value of A.S. 43.56 properties if such a borough does not institute a property tax system.

Regardless of when a borough is organized in the region, the Delta residents seek as many options as possible to raise revenues. In light of the substantial value of the TAPS property within the Delta region, the residents may be unnecessarily forced to impose a property tax that in effect takes funds from the state of Alaska. Again, HB 217 would allow for a logical and cost saving option that would benefit both the state and local government.

Your help on these matters is greatly appreciated.

Sincerely,



Mike Schultz, Chairperson  
Deltana Borough Commission



# State of Alaska Local Boundary Commission

550 West Seventh Avenue, Suite 1770 • Anchorage, AK 99501  
Telephone: 907-269-4560 • Fax: 907-269-4539

April 15, 2005

The Honorable Bill Thomas  
Co-Chair  
Community and Regional Affairs Committee  
Alaska State House of Representatives  
Alaska State Capitol, Room 428  
Juneau, Alaska 99801-1182

The Honorable Kurt Olson  
Co-Chair  
Community and Regional Affairs Committee  
Alaska State House of Representatives  
Alaska State Capitol, Room 110  
Juneau, Alaska 99801-1182

Re: House Bill Number 217

Dear Representatives Thomas and Olson:

This is to advise you that the Local Boundary Commission has, by unanimous vote, endorsed House Bill 217, "An Act relating to the determination of full and true value of taxable municipal property for purposes of calculating funding for education and certain other programs."

The objectives of House Bill 217 coincide with recommendations presented by the Commission to the Legislature as ways in which the State can create incentives for voluntary incorporation of boroughs. Details of the Commission's views on this particular issue are expressed on pages 126 – 128 of the *Report of the Alaska Local Boundary Commission to the First Session of the Twenty-Fourth Alaska State Legislature*. To facilitate matters, a copy of those pages is enclosed.

Please accept this letter and the enclosure as written testimony on the bill.

Sincerely,

Darroll Hargraves  
Chair

Enclosure:  
pages 126 – 128, LBC 2005 report to the Legislature

cc/enc: Members of the Local Boundary Commission  
Edgar Blatchford, Commissioner, Department of Commerce, Community, and  
Economic Development

**4. Eliminate the Necessity That Boroughs Encompassing the Trans-Alaska Oil Pipeline Must Impose Property Taxes.**

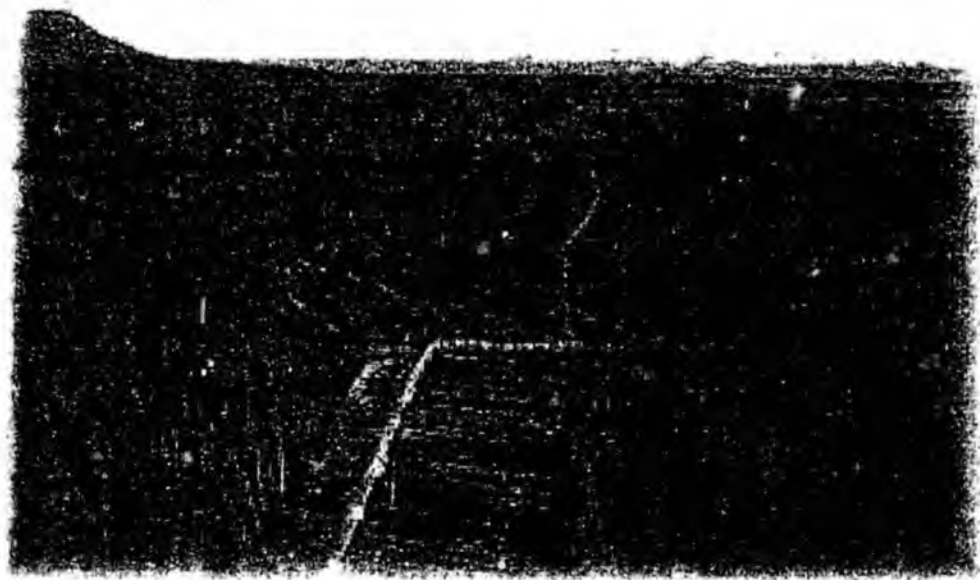
Under current law, organized boroughs are required to make financial contributions in support of their schools. The contributions are based on the value of taxable property within the borough. Each borough must contribute the equivalent of a 4-mill tax on the full and true value of taxable property within the borough (not to exceed 45 percent of the educational "basic need" for the borough school district).

The full and true value of a borough includes all oil and gas exploration, development, and transportation property within the borough assessed by the Department of Revenue (DOR) under AS 43.56. The State of Alaska levies a 20-mill property tax on the value of that property and credits the oil companies for taxes paid to a borough or city.

Given the current law, unorganized regions encompassing significant oil and gas exploration, development, and transportation

properties would, upon borough incorporation, be faced with the prospect of substantial local contributions when calculating their 4-mill tax in support of schools. Consequently, the areas would likely have no practical alternative means of generating the required local contribution except through the levy of property taxes. The practical necessity of levying a property tax under such circumstances is a disincentive for borough formation because residents of unorganized areas generally seem to least prefer a property tax than any other type of local tax imposed on the general population. Four of the sixteen organized boroughs in Alaska do not levy property taxes.

The benefit to the State from the higher contributions resulting from the inclusion of the value of the oil and



Trans-Alaska Pipeline

gas property, of course, would be directly offset by reductions in State revenues from the State's 20-mill *ad valorem* property tax on the property in question. Thus, the amendment proposed here would have no fiscal impact on the State.

In reality, the State would likely be better off from a fiscal standpoint by such an exemption so long as local government property taxes were not levied on any oil and gas property within the borough. Doing so would insulate the State's 20-mill property tax from all fiscal impacts relating to a new borough, not just those associated with the borough's required local contribution for schools.

Such a provision would reduce impediments to borough formation in the Upper Tanana Basin, Copper River Basin, Yukon-Koyukuk region, and the Yukon Flats region. The LBC emphasizes that this option would not preclude a borough government from levying property taxes in a region with substantial oil and gas properties. It simply would not make it a practical requirement.

In 2001, the Alaska Senate adopted Senate Bill No. 48 (CS for Senate Bill No. 48(FIN) am), which included the identical provision recommended here. Because of other provisions in the bill, however, the legislation was not approved by the House. Section 2 of

Senate Bill No. 48 provided as follows (underlined bold text reflects the additional language):

AS 14.17.510(a) is amended to read:

(a) To determine the amount of required local contribution under AS 14.17.410(b)(2) and to aid the department and the legislature in planning, the Department of Community and Economic Development, in consultation with the assessor for each district in a city or borough, shall determine the full and true value of the taxable real and personal property in each district in a city or borough. If there is no local assessor or current local assessment for a city or borough school district, then the Department of Community and Economic Development shall make the determination of full and true value from information available. In making the determination, the Department of Community and Economic Development shall be guided by AS 29.45.110. **However, the full and true value of taxable real and personal property in any area detached shall be excluded from the determination of the full and true value of the municipality**

from which the property was detached for the two years immediately preceding the effective date of the detachment. Also, in making the determination for a municipality that is a school district or for a city that is within a borough school district, the assessed value of property taxable under AS 43.56 shall be excluded if a municipal tax is not levied under AS 29.45.080 in that school district. The determination of full and true value shall be made by October 1 and sent by certified mail, return receipt requested, on or before that date to the president of the school board in each city or borough school district. Duplicate copies shall be sent to the commissioner. The governing body of a city or borough that is a school district may obtain judicial review of the determination. The superior court may modify the determination of the Department of Community and Economic Development only upon a finding of abuse of discretion or upon a finding that there is no substantial evidence to support the determination.

**5. Extend Municipal Land Grants for Annexations and Consider Increases in Entitlements.**

Under current law, a borough incorporated after July 1, 1978, is entitled to ten percent of the vacant, unappropriated, unreserved state lands within its boundaries. To encourage borough annexations, it is suggested that the same grants be given for any area annexed to an existing borough.

The Alaska Municipal League endorses municipal land entitlements as a means to promote annexation to boroughs. The League's formal position on the matter is set out below:

The League supports legislative changes to entitlement lands provisions to encourage existing municipalities to provide services to portions of the unorganized borough through annexation.

*Alaska Municipal League, 2005 Policy Statement, Part III-E-3.*

The prospect of increasing land entitlements to existing and future boroughs should also be explored as further incentive for the extension of borough government.

### Potential Effects of HB217 on Mining Industry in Alaska

Passage of HB 217 could have severe consequences for the Pogo project, with adverse ramifications for the entire Alaska mining industry.

HB 217 would have the effect of removing oil and gas property that is taxed under AS 43.56 from being included in value of a municipality for the purposes of determining the local contribution for schools required under AS 14.17.410(b)(2) if that municipality did not levy a property tax under AS 29.45.080.

Thus in the Delta region, if there were no property tax levied, the \$194.5 million in existing pipeline value would be removed from the tax base.

The effect would be to initially reduce the required local school contribution by \$778,000 per year. This has the potential benefit of making it easier for Delta residents to organize and operate a new borough without a property tax. Unfortunately, this may also have the unintended consequence of shifting the entire tax burden of a new borough to Pogo because the requirement for broad-based taxes or local revenue generation would be reduced. As a case in point, a proposal approved by committee in Delta on April 6 assumes no property tax, but rather would place a targeted tax on Pogo sufficiently high that Pogo would pay many millions over the mine life in excess of the entire cost of local government. Under this scenario, no other local taxes would be required to achieve a balanced budget. Even though other minor taxes might be proposed, these other local taxes would not likely be approved by voters and Pogo would end up as the sole taxpayer. Long term, this puts Pogo in a very unacceptable and uncertain position.

Allowing excessive or targeted taxes on new mining projects in the unorganized borough is bad policy for the State of Alaska. If this were to occur, it would send a chilling message throughout the mining industry that Alaska's tax regime is neither stable nor reasonable. Mining projects in other parts of rural Alaska could be adversely affected. Risk capital and exploration dollars currently being spent to discover additional deposits would diminish and reduce growth opportunities in Alaska.

# FISCAL NOTE

**STATE OF ALASKA**  
**2005 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
Bill Version: HB 217  
(H) Publish Date: 4/26/05

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: \_\_\_\_\_  
Title: Full & True Value of Taxable RDU: Comm Assist & Ec Dev (405)  
Municipal Property Component: Community Advocacy  
Sponsor: Harris  
Requester: House Community & Regional Affairs Component No.: 2703

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2005) cost: 0.0  
Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This legislation affects the full value determination with respect to two different scenarios. First, it clarifies that if an area is detached from a municipality, the full and true value of the municipality, from which the area detached, will exclude the value that existed for the two years preceding the detachment. This is necessary due to existing statutes which, require local contribution for schools based upon the value determined "as of January 1 of the second preceding fiscal year." In other words, the full value determined this year (2005) would not be used for a municipality's local education requirement for two more years (2007). Therefore, when an area is detached, it should not be this year's value that is used, but the value as of two years ago. This portion of the legislation has no fiscal impact to the division.

Prepared by: Michael Black, Director Phone 907.269.4578  
Division: Community Advocacy Date/Time 4/13/05 3:08 PM  
Approved by: Edgar Blatchford, Commissioner Date 4/13/2005  
Agency: Commerce, Community, and Economic Development

FISCAL NOTE #1

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

BILL NO. HB 217

ANALYSIS CONTINUATION

Second, this legislation requires that the full value determination within an area that is a school district, exclude the value of property assessed under AS 43.56, if the municipality does not levy a property tax. Property taxed under AS 43.56 refers to oil and gas property (such as the TAPS pipeline and pump stations along the pipeline). This property is assessed by the Department of Revenue, which levies a 20 mill tax against the property. A municipality that levies a tax under AS 29.45 may also levy the same rate of tax against the pipeline that it levies against local property (such as residences, offices and all other property.) The total of all property (AS 29.45 property and AS 43.56 property) is included in the full value determination and consequently, the entire amount is used in the calculation for the local contribution to education. *If an area does not levy a local property tax, this area would receive no direct tax revenue from the oil and gas property, while the the division would be required to include that value in the full value determination. The inclusion of AS 43.56 property values could compel a municipality to levy a property tax in order to obtain enough revenue that the extra value will require for the local education contribution. By excluding this value in the first place, if a local tax is not levied, a municipality is not required to raise substantially more revenues to cover this additional valuation. It also allows the state to retain the tax revenue generated from the state 20 mill property tax.*

There is no fiscal impact to this division by the passage of this legislation. However, without this legislation, it is possible state revenue will decline in the future if boroughs do form along the TAP's pipeline corridor and are forced into levying a property tax rather than another form of revenue generation such as a local sales tax.